probably fewer than one in a thousand, and maybe *many* fewer than that, really succeeds. If you are going to be in this elite group, you must prepare yourself, work hard, and have the emotional resilience to deal with setbacks along the way. It is very hard to find common personality traits that make people suited to be traders; most people can succeed in some capacity if they find a market and trading style that fits their personality, if they have realistic expectations and all of the prerequisites for success, and if they commit to enduring the learning curve.

One last thought on this subject: When we look at people who are very successful in any field, we find a very mixed group. They come from different backgrounds, have very different personalities and attitudes, and reached their success through interesting paths, some of which are far from straight. In most fields, it is impossible to find consistent predictors of success, but people who succeed have one thing in common—they did not quit. This is so simple that it seems trivial, but *is* the common thread tying all of these people together. As Mark Cuban said, “It doesn’t matter how many times you fail. It doesn’t matter how many times you almost get it right. No one is going to know or care about your failures, and neither should you. All you have to do is learn from them and those around you because . . . all that matters . . . is that you get it right once. Then everyone can tell you how lucky you are.” Commit to the process. Never give up.

RECORD KEEPING

Good record keeping is an important part of skill development in many disciplines. Self-directed traders usually focus on two specific kinds of records: trading journals and trade-specific records. Trading journals may include narrative about the patterns in the markets and pattern research, or they may focus on psychological issues the trader is struggling with. Trade-specific records are P&L records with some deeper information on each trade: at least the type of trade and initial risk assumed on the position. If these records are done well, it is then possible to do deep performance analysis on them to understand how the trader’s ability is growing and to target specific areas for further work.

There are many ways to create and format these sets of records once you understand the goals. With all of these records, the most important thing is to create a routine that you can commit to following on a regular schedule. There is a trade-off between complexity and ease of use; it does no good to create an elaborate system that takes so much time to maintain that you do not do it on a regular basis. On the other hand, an overly simplistic record will probably not contain enough information to be useful. Invest time at the beginning planning and creating a system that will work for you, be open to some revision as you use it, and once you have settled on a final plan, commit to keeping these records consistently. It is not unusual for traders to spend more time maintaining and reviewing these records than they do in actual trading.

Another issue to consider is whether the records will be kept on paper, in an electronic format, or in some combination of the two. Electronic records have many advantages, probably the most important of which is that they are easily searchable. If you want

to find every instance of the word *slippage* in your trading journal, this can be done in seconds. They are also easier to read and to store, and if they are backed up in the cloud, can be accessed from any computer in the world. Even with all of these advantages, there may be some argument for keeping at least a portion of the records on paper. Many people find that the act of setting pencil to paper engages a type of thought—perhaps a part of the brain—that is different from the experience of typing.

Journal

A good journal is one of the trader's most important tools. For the developing self-directed trader, it is a concrete record of successes and failures; careful reflection on and analysis of this record can point out weaknesses and growing edges that can have an immediate impact on the bottom line. Having a good written record is essential, because memory is somewhat mutable after the fact. Highly emotional events, gains and losses, and large market movements will invariably color our recollection. Keeping this record is a difficult task that most traders have trouble sustaining over many years, but it is virtually impossible to progress from novice to expert without keeping a solid trading journal. For the proficient trader, the journal becomes a type of control document. Every trader's performance is subject to some variation as a function of the natural randomness in markets, but there are also performance slips that are due to some outside stress or psychological issue. If performance deteriorates, the trading journal becomes a valuable resource to answer the question "What has changed?"

Journaling about Yourself As a self-directed, discretionary trader, *you* are a major component of your trading success and failure. Your attitude, emotional state, and energy level will all have an impact on the bottom line, and these things should be recorded in a daily journal. At the beginning, err on the side of too much detail. Though it might seem absurd, you should record such trivial points as what you had for breakfast, how much you slept, and anything unusual that happened in the morning. If you do not record those events in your journal, it is going to be difficult to tease out a pattern and to find influences that help or hurt your performance. Write down *everything* at the beginning, and modify the procedure only after you see how you will be using this document to improve your performance.

Journaling about the Market In writing about the market, there are two aspects to consider. One, there is the objective reality of price movements and relationships between markets; over time, this journal will become a source and a reference for your own research into market patterns and trading ideas. Perhaps you observed four down days in the major indexes, followed by a large up day with strong buying. Maybe you think you see an interesting correlation between currency rates and the spread between two equity sector indexes. Traders who are truly committed to understanding how markets work maintain large backlogs of trading ideas and often work on many ideas at the same time. You will be surprised at the times you will think of something several years down

the road, dig back into an old journal, and find a relevant observation that can be a revelation for a research project you are doing at the time. This record of observations and ideas about market action is an important tool for your learning and development.

In addition, you should also be journaling about your reactions to the market's movements, adapting this record to your stage of development and your function as a trader. Do you find that a period of small-range consolidation days near lows makes you nervous? Do you find yourself becoming extremely bullish during large-range multiday declines? Some of these reactions will be mistakes, and you will find some inclinations and biases that can be corrected before they become too costly in actual trading. However, other reactions will, over time, reveal facets of your trading personality that you might never have seen without this record. For instance, perhaps you will discover that you trade declining markets much better than advancing markets, or that you excel at positioning in consolidations before breakouts. Record keeping is an essential part of the learning process; without it, you may still progress, but that progress will be much slower and much more uncertain.

Daily Game Plan It is important to have a written daily game plan for each market session. Even long-term investors will benefit from writing down important cues and planned reactions to price movements over the course of days to weeks; intraday traders will need a very detailed and specific plan for each individual day. This document can serve as a control to help the trader build discipline, and can provide a connection between dispassionate analyses done outside of market hours and the actual trading process. Developing traders will often find that their view of the market is clouded by their emotional reactions to price movements, and that it is often much easier to see clearly when the market is closed. Sometimes the best solutions are the simplest: in this case, simply writing down a plan while the market is closed can do wonders. Over time, this particular record becomes something of a hybrid between a diary and trade record.

How you create this game plan is up to you, but it should probably include at least three sections: observations on the overall market, points to watch on existing positions, and potential new entries. Ideally, this document should *not* be in narrative style; this is not a journal, it is an attack plan—bullet points are much more efficient. In the beginning stages of your development you will probably want to include more detail: not only what markets you are looking at but notes on specific setups, price levels, action in related markets, and comments across multiple time frames. Later, when you have mastered your setups and your style is more fully developed, the daily game plan can become much shorter and more succinct. Retaining these plans and periodically reviewing them will give you insights into your growth as a trader, and can highlight issues of style drift that you might not otherwise be aware of.

Profit and Loss (P&L) Records

The most important set of records are probably the actual P&L records. Though developing traders should not expect to make money, their P&L is still an objective measure of

growth and performance. For the working trader, P&L is the bottom line. It is important to maintain clean, well-categorized, and accurate P&L records, and to have your own set of records to double-check your broker or clearing firm's accounting. Errors happen. Positions may be missing, may be sized incorrectly, or may end up in the wrong account. Corporate actions, buy-ins, dividends, rolls in futures, interest rates in forex accounts, currency conversions for assets held on foreign exchanges, and options assignments can all cause issues, so develop an obsessive habit of checking statements and records after any of these events. In many cases the customer has some liability in this type of error; treat your trading as a business and manage every aspect of it with discipline.

Though many brokers produce records that are adequate for most accounting and tax purposes, more resolution is usually needed. One of the most important tasks in record keeping is categorizing all trades and executions according to the setup or pattern that generated the trade. For instance, it is useful to be able to separate all pullback trades or all failure test trades, and then to do statistical analysis on that particular set of trades. Again, think carefully when you develop this system, because it is important to strike a balance between ease of use and sufficient detail. If you do not include enough detail, your analysis will not tell you anything useful about your performance. If you include too much detail, you may create an onerous task and eventually stop updating these records every day. In general, most traders might find it useful to have three to five main categories of trades corresponding to specific setups and patterns they trade. Each category could optionally have more information regarding the specific entry or exit technique used to allow for cross-referencing and deeper analysis. Excel is adequate for keeping these records, but many traders will find a database program better suited to the task.

It is very important that you create a process that is meaningful for your style and frequency of trading, and it is also important to get it right from the beginning. If, for instance, you change the way you categorize your trades, you may have to go back through several hundred or thousands of trades and recategorize them all. Not only is this a waste of time, but it compromises the integrity of the records; you may be inclined to push certain trades into certain categories in a subtle effort to skew the performance metrics on some classes of trades. In many cases it is possible to designate a trade several ways: Was that a pullback trade? Did you buy at support? Did you buy a failure test against support? Was it a selling climax trade on a lower time frame? What matters is what you thought it was *at the time you made the trade*, not some decisions you may make weeks or months afterward, so beware of making revisions to these designations after the fact.

STATISTICAL ANALYSIS OF TRADING RESULTS

There are so many subjective elements in discretionary trading, but your P&L is not one of them—you are either making or losing money. Correct analysis of your P&L can reveal hidden strengths and weaknesses. You may find you trade certain market environments